Sharekhan by BNP PARIBAS

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Dalmia Bharat Ltd

Weak regional prices lead to Q2 miss; Retain BUY

Cement	Sharekhan code: DALMIABHA
Reco/View: Buy ↔	CMP: Rs. 1,834 / Price Target: Rs. 2,200 ↓

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- We retain BUY on Dalmia with a revised PT of Rs. 2,200, rolling forward our valuation to H1FY2027E earnings, which partially offsets downward revision in earnings estimates.
- In Q2FY2025, Dalmia reported broadly in-line consolidated revenue, led by higher-than-estimated volume growth. Operational profitability miss was led by lower-than-estimated realisations.
- Management has reduced its volume growth guidance for FY2025 to 9% y-o-y from 12% y-o-y, anticipating lower industry growth rate, while it continues to eye volume growth of 1.5x that of industry growth.
- Operating cost reduction target of Rs. 150-200/tonne over three years stays intact. Dalmia is actively working on achieving its medium-term capacity target of 75 mtpa by FY2028. The company remains committed to 110-130 mtpa capacity by 2031.

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

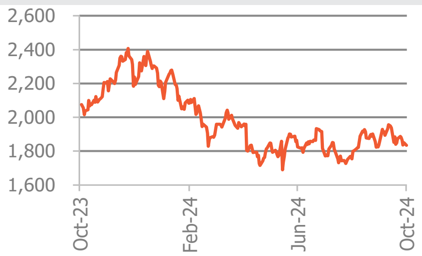
Company details

Market cap:	Rs. 34,401 cr
52-week high/low:	Rs. 2,429/1,664
NSE volume: (No of shares)	2.0 lakh
BSE code:	542216
NSE code:	DALMIABHA
Free float: (No of shares)	8.3 cr

Shareholding (%)

Promoters	55.8
FII	8.9
DII	14.7
Others	20.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-3.5	3.5	-6.5	-9.0
Relative to Sensex	0.9	2.7	-16.6	-37.5

Sharekhan Research, Bloomberg

For Q2FY2025, Dalmia Bharat Limited's (Dalmia) consolidated revenue broadly stayed in-line with our estimate at Rs. 3,087 crore (down 2.1% y-o-y), led by 9.6% y-o-y drop in blended realisations, while volume growth at 8.4% y-o-y came in better than our estimates. The company reported a miss on operational profitability front with blended EBITDA/tonne of Rs. 650 (down 32.5% y-o-y) mainly led by lower than expected blended realisations (weak pricing environment in South and East). Consequently, operating profit at Rs. 434 crore (down 26.8% y-o-y) and adjusted net profit at Rs. 46 crore (down 61.3% y-o-y) came in 5% and 26% lower than our estimate, respectively. Management has lowered its volume growth guidance for FY2025 to 9% y-o-y as against its earlier guidance of 12% y-o-y. However, it has still maintained its growth target of 1.5x of the industry growth rate (industry is estimated to grow at ~6% y-o-y in FY2025). Management has retained its overall operating costs per tonne reduction target of Rs. 150-200 over the next three years. The company believes EBITDA/tonne of Rs. 900-1,000/tonne is sustainable for FY2025 and sticks to its guidance of Rs. 1,100-1,200/tonne EBITDA over the longer term. The company is on track to achieve 49.5 million tonne by FY2025 (0.5 mtpa in Bihar and 2.4 mtpa in North East are expected in H2FY2025). It is actively working on its interim milestone capacity target of 75 mtpa by FY2028, for which it will be announcing detailed plans within the next nine., while it stayed committed to 110-130 mtpa capacity target by 2031.

Key positives

- Cement volumes grew 8.4% y-o-y to 6.7 million tonne as against our estimate of 6% y-o-y growth.
- Overall operating costs per tonne came in lower than our estimate, aided by reduction in raw-material costs on per tonne basis.

Key negatives

- Blended realisation declined by 9.6% y-o-y and 5.2% q-o-q to Rs. 4,621 owing to weak prices in South and East.
- Volume growth guidance for FY2025 has been lowered on account of downward revision in industry growth estimates.

Management Commentary

- The company has maintained its target to grow at 1.5x industry growth rate in FY2025. Management is confident of achieving 9% volume growth for FY2025. It believes EBITDA/tonne of Rs. 900-1000/tonne is sustainable for FY2025 and sticks to its guidance of Rs. 1,100-1,200/tonne EBITDA over the longer term.
- The company has maintained its cost reduction target of Rs. 150-200/tonne over three years (Rs. 50/tonne each in FY2025 and FY2026, while it is Rs. 100/tonne in FY2027).
- Cement prices in October are same as Q2FY2025 average. The company expects cement prices to improve gradually in H2FY2025, although competitive intensity may remain high.

Revision in estimates – We have downwardly revised our earnings estimates for FY2025-FY2027, factoring in lower volumes and realisations.

Our Call

Valuation – Retain BUY with a revised PT of Rs. 2,200: Dalmia is expected to benefit from a strong demand environment, while focusing on capacity addition plans. However, weak cement prices in the eastern and southern regions are expected to weigh on operational profitability in the near term. Further, the company suffered a setback in the acquisition of JP Assets, which has also delayed its medium-term capacity target of 75 mtpa by a year. The company's focus remains on maintaining its market share, while gradually improving upon cost efficiencies. We introduce our FY2027E earnings in this note. Dalmia is currently trading at an EV/EBITDA of 12.1x/10.8x its FY2026E/FY2027E earnings. We retain our BUY rating on the stock with a revised price target (PT) of Rs. 2,200, rolling forward our valuation to H1FY2027E earnings, which partially offsets downward revision in estimates.

Key Risks

1) Pressure on cement demand and prices in the East, Northeast, and South India can affect financial performance.

2) Macroeconomic challenges leading to lower government spending on infrastructure and housing sectors can also affect the company's performance.

Valuation (Consolidated) Rs cr

Particulars	FY24	FY25E	FY26E	FY27E
Revenue	14,691	14,964	16,880	19,151
OPM (%)	18.0	17.1	18.2	18.4
Adjusted PAT	770	778	952	1,113
y-o-y growth (%)	61.4	1.1	22.3	16.9
Adjusted EPS (Rs.)	43.5	41.0	50.1	58.6
P/E (x)	42.2	44.8	36.6	31.3
P/B (x)	2.1	2.1	2.0	1.9
EV/EBITDA (x)	13.0	14.2	12.1	10.8
RoNW (%)	5.2%	4.7%	5.5%	6.1%
RoCE (%)	6.4%	5.8%	6.2%	6.6%

Source: Company; Sharekhan estimates